



USAID | **RUSSIA**
FROM THE AMERICAN PEOPLE

Strategy Statement USAID/Russia



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Listing of Acronyms

AIDS	Acquired Immune Deficiency Syndrome
CBR	Central Bank of Russia
CMM	USAID Office of Conflict Mitigation and Management
DA	Development Assistance Funds
DOD	U.S. Department of Defense
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
DOS	U.S. Department of State
EMERCOM	Russian Federation’s Ministry of Civil Defense, Emergencies and Elimination of the Consequences of Natural Disasters
ESF	Economic Support Funds
FSA	Freedom Support Act
FY	U.S. Government Fiscal Year
GDA	Global Development Alliance
GDP	Gross Domestic Product
GOR	Government of Russia
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
INDEM	Information Science for Democracy (a Russian NGO)
NGOs	Non Government Organizations
OTI	Office of Transition Initiatives
OYB	Operational Year Budget
RFE	Russian Far East
SME	Small and Medium Enterprises
TB	Tuberculosis
TUSRIF	The U.S.-Russia Investment Fund
USAID	U.S. Agency for International Development
USG	U.S. Government
USPSCs	U.S. Personal Services Contractors
WMD	Weapons of Mass Destruction

USAID in Russia: Strategy Statement

Our Vision: Russia as a strong, democratic and reliable partner for the U.S. in addressing critical issues of global importance.

Our Goal: To frame a program that recognizes Russia's real development needs, its importance to U.S. strategic interests, its natural and human resources and its potential contribution to solving problems of global significance.

Our Strategy: Expressed in the terms outlined in USAID's U.S. Foreign Aid White Paper,¹ the program's principal foreign assistance goal is *Support for a Strategic State*. However, because of Russia's size, complexity and enormous regional variations the strategy contains sub-elements addressed to other White Paper goals as well: Transformational Development; Global and Transnational Issues; Humanitarian Response; and even Strengthening Fragile States. The program emphasizes building trust through cooperation, participation and linkages between American and Russian institutions. Global Development Alliances (GDAs) and other public-private partnerships designed to leverage resources are an important element of this strategy. Adjustments to a possible sustained budget shortfall are described in discussions of the affected sectors, below.

Program Rationale

Russia is vast, complex and strategically vital to American interests. Its importance to the U.S., and indeed to the global community, is unlike any other country in which USAID has operations. Therefore, our strategy is different from any other. Experience has shown that democratic nations that share values and interests and invest in the welfare of their citizens are strong, reliable partners in the international community. Accordingly, the strategy includes elements standard for a Freedom Support Act (FSA)-financed country - - transition to democracy and improved health - - and responds to a Congressional mandate to strengthen the economy and institutions in the Russian Far East (RFE). It recognizes that within the territory of Russia there exists an ethnically, historically, economically and politically distinct region - - the North Caucasus - - which manifests characteristics one would expect in a fragile (and even failed) state. The strategy supports the United States' global strategic interests in securing Russia as a partner in nuclear non-proliferation and counterterrorism and it addresses trans-border issues like infectious diseases, corruption, and the environment.

In its comprehensiveness, the strategy provides a quintessential example of the complex objectives of foreign assistance as outlined in USAID's White Paper. The strategy has multiple dimensions: transformational development using FSA funding to help Russia's transition; support for a conflict-vulnerable region using conflict mitigation, Office of Transition Initiatives (OTI) or other funding if FSA is not available; advancement of strategic U.S. interests in areas like weapons non-proliferation, threat reduction and counter-terrorism and such transnational concerns as infectious disease and environmental protection. The strategy adds one purpose not mentioned in the White Paper, namely encouraging the host country to harness its human resources and technological capacity to create an international foreign assistance program of its

¹ U.S. Foreign Aid Meeting the Challenges of the Twenty-first Century White Paper, Bureau for Policy and Program Coordination, U.S. Agency for International Development, January 2004.

own, making Russia a partner with the U.S. on issues like HIV/AIDS and international emergency response.

Transformation: Russia's transition to democracy is far from complete. Centralization of state power, including consolidation of state control over national mass media and governmental pressures on non-government organizations (NGOs) has raised concerns about the elimination of checks and balances in the political systems and the Government of Russia's (GOR) commitment to democracy. The concerns have grown with: the move to eliminate the election of governors, replacing them with Kremlin appointees; legislation that eliminates single-mandate districts and undercuts small political parties; and several highly publicized efforts seemingly aimed at using the courts to re-nationalize natural resources, undo controversial privatizations of the 1990s, and selectively prosecute certain prominent citizens. At the same time, the last decade has seen major development of a civil society with thousands of NGOs taking up delivery of social services, advocacy of human rights, and accountability in governance. In contrast to the situation at the national level, regional independent media continues to gain financial strength, increasing informative news programming in the regions. Despite shortcomings in certain high-pressure, high-profile cases, there has been tangible improvement in certain aspects of the judicial system and growing numbers of citizens are seeking recourse with success in the courts. At the local level, governments have instituted public hearings that allow citizens to participate in the decision-making process and to review planning and budgeting. Yet these gains have not been fully consolidated or institutionalized, and progress made to date is vulnerable.

Because of the evolving and unpredictable process of democratic development, USAID will remain engaged in efforts to strengthen reforms and support civic actors—especially in the face of current negative trends. The planned 2007 and 2008 federal elections will be a critical milestone in the Russian people's efforts to build a more open, participatory and accountable society. Funding for democratic initiatives will remain USAID's largest sector.

Russia's transformational development is threatened by a demographic implosion. Health deteriorated precipitously after the collapse of the Soviet Union. Male life expectancy plummeted to a level similar to that of Bangladesh. The pace of HIV/AIDS infection is one of the fastest in the world and the epidemic is shifting from one primarily of intravenous drug users to heterosexual transmission. Maternal and infant mortality levels remain among the highest in Europe, and gender-based violence, both at home and outside, continues at high levels. Multi-drug resistant TB is also increasing rapidly. Overall, deaths are outpacing births 1.7 to one. If these trends continue, Russia could lose one-third of its population over the next 45 years – an outcome with very serious national security implications not only for Russia but also for the United States.

Russia's economic progress, while impressive during the past five years, has been uneven. Hidden by strong Gross Domestic Product (GDP) growth and an accumulation of foreign exchange reserves fueled by record-breaking oil prices, poverty remains severe, especially in the RFE and the North Caucasus. Although Moscow boasts the world's highest number of billionaires per capita, small- and medium-sized enterprise (SME) growth in Russia lags behind most of Eastern Europe and per capita income levels in some parts of Russia equal those found in sub-Saharan Africa. Widows, as single heads of households, are particularly likely to fall below the poverty line.

In response to these continuing challenges, a significant portion of our program will focus on the transition to a more democratic society. We will provide essential support to civil society through grants to Russian non-government organizations working on advocacy, social service delivery, and policy reform. We will help Russians working with independent media, radio and print as well as television to provide high-quality, socially-relevant material to a broad public. Building on successful past collaboration, we will strengthen the judiciary through exchanges of judges and support to the bar association and legal clinics. We will support groups working for increased access to, and participation in, local government. We encourage exchanges of information and experience between American and Russian political parties, and will support efforts to strengthen the integrity of the political process during the planned 2007 and 2008 election campaigns. We will encourage discussion and debate on key issues that could increase the likelihood of free and fair elections and we will review the appropriateness of the current FY 2012 phase-out date for work on democracy in preparing the operational year plans.

Our work in health will concentrate on infectious disease, particularly in curbing the growing HIV/AIDS epidemic. If growth is unchecked, eight million Russians could be HIV positive by 2010. We will also work on multi-drug resistant tuberculosis (TB), Hepatitis B and C, on maternal and child healthcare services, including family planning, thereby continuing to contribute to a significant reduction in maternal mortality, abortion, and morbidity in Russia. We will continue to support child welfare activities for Russia's nearly one million highly vulnerable, abandoned children, attack the new problem of HIV/AIDS orphans and assist families in crisis. The phase-out date for health cooperation is 2010, again a premise to be reviewed in preparing the operational year plans.

The phase-out date for FSA-supported economic growth activities is FY 2006. Accordingly, we are winding down our economic reform activities. We have closed down our mission's office of economic growth. Where appropriate, we have included think tanks, business associations and environmental non-government organizations in our support for civil society organizations. If sufficient resources can be mobilized, and in consultation with EUR/ACE, we propose to continue support for micro-finance, small- and medium-sized enterprise development and local economic development activities where income and jobs continue to be of primary concern, notably in the RFE, North Caucasus, and in strategic cities related to non-proliferation and threat reduction work. Successful work in these geographic areas is critical to addressing Russia's problems from the geo-strategic perspective under USAID's White Paper. Moreover, building a stronger middle class is a key element in strengthening democracy. We would also continue banking reform, in support of counter-terrorism (anti-money laundering).

Regional and Community Development: We intend to select a limited number of geographic regions or communities for special emphasis. These include regions that hold promise for demonstrating models that can eventually be replicated more widely in Russia and those that provide special opportunities or manifest special needs, including cities involved in threat reduction or non-proliferation related activities.

Three probable emphasis regions are the RFE, the North Caucasus and strategic cities. For each the last three years, \$17.5 million of FSA funding for Russia has been earmarked by Congress for the RFE. The RFE has needs distinct from those of European Russia. It is a region that is undergoing a major transition in the face of countervailing forces - - costs imposed by a cold climate, vast distances and a weak infrastructure against a rich bounty of natural resources - - which are producing major shifts in population and wealth and posing major challenges for governance, social welfare, and stability. The benefits from natural resource extraction are

flowing largely to Moscow, leaving people in the RFE feeling disenfranchised with many basic needs unmet and creating a potential source of discontent and instability.

With 22 percent of the world's forest area located in Russia, development in the RFE cannot be logically addressed without attention to environmental issues, especially as related to local governance and small- and micro-enterprise development. Issues relating to the environment and small enterprise development cut across questions of governance, employment and equity, and we argue that as long as we are congressionally mandated to work in the RFE, we should support groups working on both.

The North Caucasus presents issues of remarkable ethnic, historic, religious and economic complexity. With elements of on-going and post-conflict societies, and socio-economic indicators at or below levels for sub-Saharan Africa, the North Caucasus exhibits many characteristics of a failed state. This reality has dramatic implications for regional stability and Russia's democratic future. It also affects U.S. interests in sustaining an effective partnership with Russia in the global war on terrorism.

We have a number of resources, primarily strong Russian partners developed by USAID over the years, to contribute to a multilateral donor effort to change the basic, underlying social and economic conditions in the North Caucasus. These can be utilized to foster economic and social development, using experience learned in post-conflict societies to revise expectations and reform governance. The key, of course, is security and the willingness of the Russian government to adjust its approach to the region, to accept outside involvement, and to move beyond humanitarian assistance to rehabilitation, recovery and growth.

Work in the North Caucasus region is high risk. There is no guarantee of success, but the potential exists to make a meaningful impact that would support political, social and economic stability in the region. We expect to work initially through the United Nations and its agencies and other established organizations already working in the region, later branching out, as trust of the Government and local authorities grows, to support civil society organizations, SMEs, media, local government, and local economic development. At each step, our approval would be based upon agreement with the GOR for our involvement and request for assistance from communities in the region. In FY 2005, we utilized technical expertise as well as non-FSA financial support from the Office of Conflict Mitigation and Management (CMM) in coordination with OTI and, State/PRM to provide an initial response to the region. The Mission has also worked with CMM to program \$5 million of FY 2005 supplemental funding for the North Caucasus. This response created an opening for the GOR and the U.S. to work, and achieve, together in the North Caucasus. However, this "opening" must be nurtured as the strategy is implemented.

U.S. Strategic Interests: Russia's strategic importance is clear. Indeed, it may be the most strategically important country in which USAID works. It is the world's second largest oil and largest natural gas producer, has vast mineral and petroleum resources, and contains a fifth of the world's forests. Geographically, it sits at the center of a vast and troubled region spanning two continents. Geo-strategically, it is at the center of global energy, security and trade questions vital to the United States. It has one of the fastest-growing HIV/AIDS epidemics in the world and a serious problem of multi-drug resistant TB.

Russia faces significant challenges addressing its Cold War legacy. It has a complex infrastructure intended to support the design, production and storage of its strategic weapons of

mass destruction (WMD). While members of the G-8 community are working with Russia on initiatives including nuclear submarine dismantlement, chemical weapons destruction, and material protection, control and accounting, there remains a vast strategic weapons complex that will be in place for many years to come. Russia also has a network of thousands of extremely talented scientists with sensitive skills and knowledge who do not yet, in many cases, have opportunities to re-direct their talents in economically sustainable, commercial or research-oriented projects. The U.S. is spending nearly \$800 million a year on programs administered by the Department of Defense (DOD) and Energy (DOE) to support non-proliferation and threat reduction initiatives in Russia. The majority of these initiatives are directly related to dismantlement and disposition of WMD and related materials, as well as security and safety upgrades at a variety of sites throughout Russia. As the American and Russian governments work in partnership to address the most significant proliferation concerns, development of a longer-term sustainability and transition strategy necessarily becomes of greater importance. Success in limiting the threat from WMD will not come from hardware reduction alone. The stability of Russia's WMD complex over the long-term will increasingly depend on the prosperity and social welfare of the communities in and around strategic sites.

USAID can play an important role in facilitating the long-term economic and social stability of cities of non-proliferation significance in Russia. Over the last 12 years, USAID has developed a unique set of Russian economic and social development programs and institutions that can directly contribute to sustainable development of communities involved in non-proliferation. We are creating a framework for communities of strategic importance to Russia, which will involve sister city relationships in the U.S., and support from USAID's network of strong Russian partners in urban management and planning, micro-finance, youth and civil society development, health and child welfare. The objective is to provide community planners and leaders with alternative approaches to development.

We are also exploring ways to incorporate the Russian scientific community into the broader international public health community, especially related to research and development on pandemics. We have begun by looking at research related to infectious diseases and identifying opportunities for Russian experience and capacity to work on vaccines and diagnostics. USAID's Office of Global Health has a distinguished history of commercializing health technologies, and we are hopeful that there are opportunities to work with Russian scientific organizations in reproductive health technology development. We recognize the sensitivities, both in Russia and within the U.S. interagency community, regarding work with certain scientific communities. However, we believe we can identify ways to work in partnership to bring Russia's scientific capacity to bear in global public health research and in the fight against infectious diseases like HIV/AIDS.

USAID can also contribute to U.S. counter-terrorism objectives through work in the North Caucasus and through helping to introduce improved banking systems and anti-money laundering techniques in Russia. On anti-money laundering, the U.S. has an excellent relationship with the Central Bank of Russia (CBR) and an extensive history of working on banking supervision. USAID this year will initiate a program to help the CBR with their anti-money laundering program. The program is dedicated to identification of illicit financial flows and combating money laundering and terrorist finance. Additionally, in collaboration with the State Department (DOS), U.S. Treasury, and the Department of Justice (DOJ), USAID stands ready to support Russia's implementation of the Eurasia Group and to provide training and technical assistance to the financial sector on anti-money laundering and counterterrorism finance policies and compliance.

We have begun discussions with the GOR about work in the North Caucasus and have been asked to assist in local administration, microfinance, small business development, and psycho-social counseling. We know of Russian and international non-governmental organizations with experience in the region ready to expand existing programs or launch new initiatives.

Russian Foreign Aid: With considerable resources and enormous human capacity, Russia has the potential to join with us in delivering assistance to third countries. The GOR has already expressed an interest in eventually renewing its foreign assistance programs which under the Soviet system worked extensively in developing countries around the world. The GOR has also invited us to work with it in coordinating disaster response. Our aim is to help Russia return to a prominent role as a provider of foreign assistance and as a strong global partner with the U.S. Together; we can work to combat infectious disease and strengthen primary health care as well as collaborate on emergency disaster response and the mobilization of volunteers.

We have already begun these efforts with a modest program this year of exchanges of American and Russian volunteers to work on HIV/AIDS. Under this strategy, we will expand that program to include a growing number of volunteers and joint programs in third countries.

USAID will implement new health initiatives recently announced at the Bratislava Conference as Presidential initiatives, which, this year, will include joint deployment of HIV/AIDS laboratory specialists in third countries, expansion of the World Health Organization's regional "knowledge hub", and participation of a senior Russian health specialist in the UNAIDS office in Geneva.

We are collaborating with the Federal Emergency Management Agency and the Department of Defense (DOD) in work with Russia's disaster response agency, EMERCOM, on developing joint planning and response capacity to international disasters such as the recent tsunami, another Presidential checklist initiative announced at Bratislava and reaffirmed at the G-8 meeting at Gleneagles, Scotland this year.

Youth: It should be underscored that the Strategy Statement places an emphasis on the participation of youth in helping to forge this new partnership with Russia. We will involve Russian youth in promoting civil society; expect them to play a significant role in the political process; engage them in development efforts in the North Caucasus; and include them as part of vulnerable groups in health interventions.

Expected Results

Democratic Development

- National, regional and local elections are held that come significantly closer to meeting international standards, involving nationwide citizen election observers and greater numbers of Russian youth voters.
- Independent regional media provide accurate news, report debates on public issues and disseminate public service messages.
- Independent policy institutes provide objective analysis on key policy issues of social importance and serve to inform public debate, bridging the gap between public officials and citizens in setting and responding to public priorities.

- A responsive judicial system exists and professional legal associations provide continuing education and legal representation/advocacy for civic groups.
- Community action models to stem corruption result in partnerships between civic organizations, businesses and local authorities that improve public awareness about the cost of corruption.
- Self-sustaining community foundations provide direct support for vibrant NGO activity.
- Independent advocacy groups speak on behalf of Russia's disadvantaged and informed debate on environmental, social welfare, business and human rights issues.
- Models of civic education and the development of democratic values foster the participation of greater numbers of Russian youth in civic life.
- Greater numbers of Russian citizens have a voice in the decisions that affect their lives in terms of public spending, social services, and economic growth/employment opportunities.

Improved Health Outcomes

- Restructured health services follow internationally accepted evidence-based practices.
- A legacy health institution that promotes public/private partnerships to address unhealthy lifestyle issues that impact directly on life expectancy of adult males.
- Reliable, sustainable, and replicable models for the prevention and treatment of HIV/AIDS and TB adopted and incorporated into the Russian healthcare system.
- Maternal and child health institutions and services contributing to reduction in mortality and morbidity replicated in at least 16 additional regions.
- A legacy child welfare program and improved child welfare practices and new approaches to care and integration of abandoned children.
- The development of draft protocols on a variety of health issues (i.e., TB, breastfeeding, post-abortion care, mother-to-child-transmission of the AIDS virus) serving as the basis for developing national protocols.

Regional and Community Development

- Improved health care and social services in the RFE, North Caucasus and strategic cities.
- Increased SME activity for businesses in RFE and North Caucasus.
- Microfinance legacy organization providing services and loans to micro-lending institutions across the country.
- Better urban management and expanded public participation in, and access to, local government, including strategic cities in which the U.S. and Russia are working on non-proliferation and threat reduction as well as cities in the North Caucasus and the RFE.
- Enhanced economic development and social service delivery infrastructure in strategic cities, North Caucasus and RFE.
- Expanded tolerance and youth development programs in the North Caucasus.
- Community foundations established and operating in the regions.

National Security

- Partnerships between American and Russian communities involving links between local governments, businesses, citizen groups and education representatives established.
- Enhanced economic development and social service delivery infrastructure in communities where American-Russian non-proliferation activities are taking place.

- Increased citizen participation by both men and women in local government, including strategic cities.
- Increased small enterprise development and micro-lending, including the RFE, North Caucasus, and strategic cities.
- Improved anti-money laundering regime.

Russian Foreign Aid

- Russian medical personnel working with Americans (and others) to support public health programs in developing countries.
- Russian and American volunteers conducting regular exchanges and working together with joint programs in third countries.
- Mechanism for regular training, information and exchange on international disaster response and joint activities established.

Obstacles to Achieving Results

GOR Commitment. The central government's apparent lack of enthusiasm for our democracy programs, particularly those involving transparency, accountability, public discourse and political competition, poses a challenge for our democracy portfolio but at the same time underscores the need to persist. A continuation of some of the recent trends toward greater government control and heightened suspicion of both NGOs and foreign-funded activities may hamper our ability to achieve results. Additionally, the waxing and waning of support from GOR officials for our work in the North Caucasus region may affect our ability to make progress in the region.

Security Issues. Continuing instability in the North Caucasus region, which includes periodic armed attacks, hostage taking and lawlessness will complicate program delivery and monitoring and evaluation in the region. Travel to the North Caucasus region continues to be restricted by Russian authorities. In addition, USG employees are restricted by U.S. Embassy policy from traveling to the region.

Nationalism and Xenophobia. In 2004, Russia saw an increase in nationalism and skepticism about or even opposition to foreign non-governmental organizations working ("meddling") in the areas of democracy and rule of law, a concern aggravated recently by events in Ukraine and Kyrgyzstan. To date, USAID and other donors have continued to achieve success in building civic participation and local government, especially when working at the community and regional levels, and in sectors that are not perceived to be "politically sensitive," such as health, gender, housing, communal services reform, and aspects of the environment.

Dialogue. An emphasis on partnership as opposed to a donor-recipient relationship is key in all areas. GOR willingness to engage in dialogue of this sort is an important constraint on our ability to succeed. GOR cooperation is particularly critical to our ability to achieve results in the North Caucasus and in WMD communities.

Economic Instability. The economy is excessively dependent on the natural resource sector – especially oil and gas – and on large enterprises. The financial sector's infrastructure is particularly weak. An international economic shock, such as the disruption of oil flows/production, could undermine Russia's economic and social reforms and harden resistance

to further reform both in both sectors. It could also rapidly wipe out Russia's seemingly favorable macroeconomic statistics.

Distribution of Resources. Distribution of economic resources and evolving fiscal policy which severely constrains the ability of regional and local governments to deliver adequate services to the population could impair our programming and full phase-out of assistance in the economic area. The poor distribution of resources is already aggravating tensions between the population and government in poorer regions and between these regions and Moscow. Indecision on implementation of local government reform will continue to affect our ability to strengthen local services and improve local governance.

Corruption. In every sector in which we work corruption is a major impediment to change. Whether within the government (all levels) or in business, or in civil society, corruption represents entrenched interests at all levels that work to resist change.

Policymakers' Engagement. Sufficient political will of policymakers to support initiatives, for example, in developing a national strategy, monitoring and evaluation plan for HIV/AIDS and support for work in the North Caucasus. The political will – or lack of it – on the part of policymakers will be crucial to success.

Awareness. Low level of awareness and residual lack of acceptance of the importance of HIV/AIDS issues among non-health professionals (e.g., business and the media).

Soviet Practices. Practices and attitudes carried over from the Soviet era (e.g., health management practices, central procurement, unfavorable views of the potential of orphans and disabled persons, unhealthy lifestyles, emphasis on institutionalization versus home care) complicate our efforts to increase effectiveness and sustainability.

Structure of Health System. Vertical nature of health service delivery (TB, HIV/AIDS, sexually transmitted infections are all separate systems within the health infrastructure) and low levels of involvement of NGOs and communities in TB control.

Funding. A sustained drop in funding to the \$40 million level would require curtailment of new activities such as the North Caucasus and strategic cities; and civil society and child welfare programs would be cut in half. The reduced funding may also disqualify the mission from receiving HIV/AIDS funds from CSH.

Context for Foreign Assistance

Russia's economic situation has improved dramatically since the 1998 financial crisis. With a strong macro-economy and fiscal policy, GDP growth for 2004 was 6.9 percent and, while less than expected, remains strong. Russia has amassed record-high gold and foreign currency reserves (more than \$147 billion), a substantial Stabilization Fund (at least \$33 billion), and a larger-than-anticipated budget surplus of 4.1 percent of GDP. The Finance Minister has thus far successfully managed to maintain fiscal restraint, despite persistent attempts by other cabinet members to spend Russia's oil windfall. With oil prices expected to remain high in the immediate future and GDP annual growth predicted at between 5 and 9 percent over the next five years, Russia's macro-economic situation appears relatively stable in the near term and reasonably positioned to absorb unforeseen shocks.

Unfortunately, not all of Russia's economic news is so positive. Net capital outflows in 2004 were four times higher than in 2003 and only slightly less than outflows in 2002, reflecting continued investor concern over the Yukos Oil case, weak protection of contract and property rights, and significant weakness in the financial system. Foreign Direct Investment continues to lag behind other regional economies, indicating a marked lack of confidence in the Russian business operating environment. On the domestic side, this lack of confidence is seen in a continued lack of economic diversification and persistently low growth of the SME sector, one of the main drivers of diversification. In brief, Russia's macro-economic health is relatively sound and retains signs of future promise. However, investors are continuing to limit their exposure to longer-term direct capital investment, which reflects clear concern about the pace of institutional reform, the overall business operating environment, direction of economic diversification, and level of corruption in Russia.

During the past three and a half years, democratic freedoms have declined markedly as the administration has steadily consolidated political power in the executive branch. A resurgent Russian state has taken a far more assertive role in seeking to control or "manage" the political, economic, and social spheres. The government has backed away from decentralization plans, for example, and moved instead to limit the power and resources controlled by local authorities. In the recent past, the Kremlin has: consolidated its control over the national electronic mass media; established a dominant, corporatist/statist political party; used administrative resources to influence election outcomes; established tighter federal control over the regions, including a recent move – introduced as a counter-terrorism response to the tragic school attack in Beslan – from elected to federally-appointed governors; placed new requirements on political parties and eliminated single mandate constituencies; allegedly used law enforcement organs to weaken political opposition; increased control over major spheres of the economy, particularly natural resources; and is feared to be making repeated attempts to co-opt and control civil society. Furthermore, perceived abuses in the privatization program in the mid-1990s have left the very words 'democracy' and 'democratic' tainted in the minds of many Russian citizens who identify these words with corrupt politicians and cronies who abused official positions to appropriate state assets. All this has weakened or eliminated checks and balances in the system and weakened the ability of the government to respond effectively to the challenges it faces. With this weakness has come increasing nationalism, and skepticism about or even opposition to foreign non-governmental organizations working in the areas of democracy and rule of law, a concern aggravated recently by events in neighboring countries such as Ukraine and Kyrgyzstan.

Despite these negative developments, USAID and other donors have continued to achieve success in building civic participation at the community and regional levels, and in sectors that are not perceived to be "politically sensitive," such as health and environment. Direct cooperation with the Russian judiciary and local governments continues to thrive.

Corruption is pervasive. According to a July INDEM Foundation report² one report of May 2002, Russians spend an estimated \$316 billion annually on bribes and kickbacks, which represents nearly a ten-fold increase in just the last four years. Corruption is expected to remain a challenge to USAID's program in the foreseeable future. The Russian partners with whom USAID works will encourage transparency, accountability, and integrity in all facets of the program to serve as an example to Russian citizens that success can be achieved legitimately and that society benefits when corruption is rejected as unacceptable.

² (<http://www.indem.ru/en/publicat/corr5720.htm>). Cf., *The New York Times*, August 13, 2005, Section A, Column1, page 3.

Health and demographic indicators continue to present a stark picture with a declining population, rising HIV/AIDS rates, and epidemic levels of TB. Russia's demographic implosion will create serious economic and social problems during the upcoming five-year period. It is estimated that the effect of the HIV/AIDS epidemic alone will reduce the annual economic growth rate by as much as one-half a percent over this period. Nevertheless, there has been substantial progress over the last two years. Municipal governments are allocating significantly more resources and Federal AIDS centers have been established in all 89 federal districts. Prevention of maternal-to-child transmission programs has been successful in 18 USAID-supported regions. New models of care have been introduced, a greater number of baby-friendly facilities certified, and TB success rates have increased and improved practices leading to the reduction of the spread of HIV/AIDS have been adopted, all giving evidence that there are opportunities for USAID to make a meaningful impact. Replication of pilot, demonstration activities has spread techniques and changed attitudes throughout the country.

Russia is on the frontlines of the global struggle against terrorism in several respects. It has repeatedly, in recent years, been the victim of major terrorist incidents including not only the widely publicized Beslan school incident, in which hundreds died, but also attacks on two civilian airliners, the Moscow metro, a restaurant, a hotel, a theatre, an open-air concert and other public places which resulted in hundreds of other deaths. In addition, Russia continues to suffer from a simmering civil conflict in Chechnya and unrest in adjoining regions in the North Caucasus. Russia adjoins a number of states where the struggle against terrorism is also acute.

A major factor affecting USAID's operating environment is the dramatic decrease in FSA funding levels and the imposed mandate to eliminate funding for the economic growth portfolio after FY 2006, with the possible exception of the North Caucasus, the RFE and strategic communities. Strategic options are further constrained by the earmarks, directives, and otherwise-directed line items affecting more than 80 percent of USAID's budget in 2004. It appears that the percentage of the total budget controlled by such Washington mandates could increase in FY 2006.

To address these development challenges and opportunities, our strategy outlines four strategic objectives.

Strategic Objective No. 1: Strengthened Environment for Small and Medium Enterprises in Areas of Strategic Interest

USAID will phase out residual general economic growth (EG) activities in microfinance and with the CBR with final FSA funding in FY 2006. In the interim, USAID will strengthen legacy institutions to continue reform and solidify successes achieved to date. Policy research and advocacy support as well as business association activities will continue after FY 2006 under the Democracy Strategic Objective. In addition, after consultation with EUR/ACE, some activities in SME development, microfinance, agribusiness, local economic development, and other distinct areas will be employed on an as-needed basis as instruments to support our strategic foreign policy interests, including the possibility of work with the CBR on anti-money laundering as part of the USG overall focus on combating global terrorism. With funding of less than \$40 million, phase-out of our residual activities would accelerate. SME support would be terminated and financial sector support reduced by more than one third – possibly reducing the long-term impact of these activities.

Improve Private Sector Competitiveness

During the strategy, some economic activities, may receive funding based on continuing Congressional earmarks or to support strategic foreign policy objectives such as work with strategic communities, the RFE and the North Caucasus where job creation and income generation are critical elements in community revitalization.

Strengthen the Financial Services Sector and Increase Access to Capital

In the final year of FSA funding for these programs we will continue to support a strong banking system through enhanced on-site bank supervision and implementation of a deposit insurance system. In addition, USAID will finalize assistance to capitalize a microfinance capital fund to continue credit to regional microfinance institutions after termination of direct USAID support. USAID will discuss with the E&E Bureau and EUR/ACE the possibility of utilizing selected Bureau central projects for targeted interventions to support financial sector reform such as those carried out in “post presence” countries in Eastern and Central Europe. USAID will explore the need for additional strategic work on policies and practices for anti-money laundering training to support anti-terrorism measures in coordination with other U.S. government agencies.

The U.S.-Russia Investment Fund (TUSRIF) is to propose how expected reflows may be used to finance legacy projects and institutions beginning in FY 2007 or later. It is expected that TUSRIF will propose an institutional structure for legacy activities and a strategic funding plan. This will provide the framework for TUSRIF or its successor organization(s) to manage and allocate future reflows to finance private sector development activities consistent with U.S. policy and the intent of the original grant. It should be noted that while the TUSRIF Board will recommend the programs and direction that the Fund takes in the future the ultimate decision will rest with EUR/ACE with recommendations from USAID.

Strategic Objective No. 2: More Open, Democratic Society

The United States has a vital interest in helping Russia become an open, democratic and stable geopolitical partner by encouraging a wide range of economic, social, and political ties connecting the U.S. and Russia’s public, private, and social sectors. USAID will work to strengthen government-business-NGO cooperation to encourage advocacy and dialogue; to increase information and political expression; and to promote protection of economic, human, and social rights.

During the implementation of this strategy the Mission will explore opportunities to realize significant program impact and strengthen partnerships leading to sustainable, legacy mechanisms that support an evolving, democratic society. The upcoming 2007 and 2008 federal elections will be pivotal events in the evolution of Russian democracy and at the same time are very sensitive from a GOR perspective. USAID efforts will focus on such areas as citizen participation and issue-based advocacy; monitoring of campaigns, elections and the actions of local officials; youth civic involvement and education; and objective, professional media coverage of social and political issues. Given the importance that the elections may have for program direction and impact for future years of the strategy, it is imperative that additional resources be made available prior to FY 2007 to support a free and fair election process. With budgets of \$40 million or less, work in rule of law, media and civil society will be reduced. There will be no anti-corruption or anti-trafficking activities. Pre-election technical assistance will be minimal. The second phase of the civil society, NGO networking will not be implemented. Support for RFE programs could fall by as much as 80 percent, thus possibly threatening the ability of the program to meet earmarks associated with the RFE.

A. Elections and Political Processes

Promote and Support Credible Elections Processes

To support Russian voters seeking meaningful choices of candidates and policies, USAID will fund American and Russian partners whose programs identify and expose gross violations of Russian law such as the misuse by incumbent candidates of “administrative resources,” enable public policy analysis institutes and the media to promote discussion and report on candidates and issues, and help parties and candidates identify positions on public policy issues of direct concern to voters. Second, to support free and fair elections, USAID plans to significantly expand its support to grantees capable of providing independent vote counts, identifying any election abuses or irregularities and communicating them to the Russian government and media.

Strengthen Democratic Political Parties

USAID will support organizations helping political parties respond to changes affecting the political environment, such as meeting stringent new party registration requirements or strengthening party grass-roots organization. Activities will strengthen the organizational capacities of democratically-oriented parties, improve coalition-building efforts, and promote cooperation between parties and NGOs to help the political process better respond to citizen priorities. The expansion of youth participation in the political process will be a major focus. However, if funding were to be severely cut, these activities may be limited in scope and nature.

B. Independent Media

Establish and Ensure Media Freedom and Freedom of Information

USAID support for free and open media will include funding initiatives by NGO partners in independent television, radio and print news, including strengthening professional media associations to improve reporting standards and management practices to enhance the professional quality and sustainability of media outlets.

C. Civil Society

Strengthen Civil Society

Cooperation between government, the private sector and non-governmental organizations will be fundamental to the development of a healthy civil society in Russia. USAID will continue to work with civic, private sector, environmental, human rights and educational associations to increase their efficiency and effectiveness, as well as with federal and local governments to promote citizen-to-government interaction. Promoting the involvement of youth in civic life is also a priority. Key strategic and policy questions, notably the tax status of non-governmental organizations and the improvement of the environment for charitable giving, will be part of USAID’s democracy strategy. We will also work to strengthen the sustainability of legacy civil society support organizations. If overall funding levels were to be reduced, our civil society strengthening programs would be cut in half. Activities to replicate successful programs as well as to take federal programs to regions would be cut or reduced. Our expected outcomes could be greatly reduced by a reduction in projected funding levels.

D. Justice Reform and Human Rights

Strengthen the Justice Sector

USAID will build upon its excellent rapport with Russia's judiciary and legal profession to replicate successful pilot reforms that have proven to produce a more transparent, accountable and effective system for guaranteeing basic economic, human and social rights. These include publication of judicial decisions, innovations tested in pilot courts such as random case assignment to judges and improved customer service, and administrative reform initiatives involving the American and Russian judiciaries. USAID will also expand its human rights program to develop the advocacy skills of civil society organizations, improve their legal status and their public image, and provide access to justice through human rights law clinics.

Reduce Trafficking in Persons

Efforts will continue to prevent trafficking of persons, including increasing public awareness and the availability of crisis intervention, training in job skills and other training for women and males at risk for trafficking. At lower than expected funding levels, activities working to reduce trafficking in persons would not continue.

E. Local Governance

Support Democratic Local Government and Decentralization

USAID-supported partners will help develop and advocate federal policies to strengthen institutions of local self-governance, and make them more accountable, transparent, and responsive to citizens needs including development of new models of effective social program administration, better targeting of benefits to those in need, and increased efficiency of service delivery through competitive procurement with local civil society and municipal organizations. Efforts will be made to support/promote social impact analysis, including gender differences, of policy reforms and budgeting proposals. USAID will support the development and implementation of various inter-governmental fiscal and budget policy reforms promoting greater transparency in government budgeting and in performance-oriented budgeting at both the federal and regional levels. USAID will support continued collaboration among business community, non-government organization (NGO) representatives, and local authorities on combating corruption, and improving the investment climate. USAID will also support an initiative to combat illegal logging and fight corruption in the forestry sector. If projected funding levels are not maintained, this program would be cut reducing the number of strategic regions would be included in the program. At a level of funding below \$40 million annually, it is possible that no new activities in either strategic cities or the North Caucasus region would be programmed. Additionally, any continuation of such programs would be in jeopardy.

Strategic Objective No. 3: Use of Improved Health and Child Welfare Practices Increased

During the last decade of assistance USAID's work in health has had a number of positive results, including a falling rate of abortion, improved rates of TB treatment, improved primary care standards, greater municipal funding for health care in some areas, and decreases in the number of abandoned and vulnerable children. Because of the national security implications for the United States of Russia's declining population and inadequate health services in strategic cities, with consequent potential for social instability and resultant destabilization, the U.S. has an interest in continuing this assistance to Russia's health and infectious disease program, especially for HIV/AIDS.

USAID's activities will serve as a catalyst for change by introducing innovation, encouraging Russian replication of best practices, and coordinating donor collaboration. The central themes of USAID's health strategy are developing public health and political leadership; increasing access to safe, acceptable infectious disease prevention, treatment, care and support services; and increasing the number of successful models adapted and replicated in Russia. Over the next years, the health portfolio will work with the Russian Ministry of Health and Social Welfare so that Russia becomes an active development partner committing increasing government resources to critical health priorities, such as HIV/AIDS, TB and Hepatitis C.

While the focus in the health sector during this strategy will continue to be HIV/AIDS, TB and Hepatitis C, there is an acknowledgement that an overwhelming proportion of the premature deaths that occur in Russia (and which account in large part for the expected one-third drop in population over the next generation) come from non-communicable diseases (e.g., diabetes, heart disease, lung disease, etc.), especially those related to alcoholism and smoking. Health sector budget levels over the strategy period are expected to be constrained, with funds largely earmarked for HIV, TB, family planning and orphans. Nevertheless, should additional funds become available that would permit such activity, the Mission may consider undertaking interventions in the area of non-communicable disease prevention and treatment. If funding levels fall to \$40 million, support for orphans will be cut in half. HIV/AIDS support will be reduced. Support for TB and maternal and child health will be minimal. The reduced funding for HIV/AIDS will probably disqualify the mission from receiving additional HIV/AIDS funds from CSH. Our continued contributions to the Agency's health earmarks will be significantly reduced.

Reduce Transmission and Impact of HIV/AIDS

USAID's HIV/AIDS program will increasingly focus on prevention and treatment programs for high-risk populations, including vulnerable youth, drug users and prisoners. The HIV/AIDS treatment, care, and support initiative will continue to empower local leaders to promote multi-sectoral collaboration; establish support for people living with HIV/AIDS; engage and strengthen NGOs working in prevention, care and support; ensure control of HIV/AIDS transmission; and, build capacity to apply a quality improvement methodology.

Prevent and Control Infectious Diseases of Major Importance

Deadly multi-drug resistant forms of TB found in Russia necessitate continued and sustained cooperation with U.S. experts. Efforts will introduce and expand TB treatment and infection control measures. The program will work to refine TB-related national guidelines. USAID also will support Hepatitis C prevention in the RFE.

Support Family Planning

USAID's work to reduce abortions and improve reproductive health has been enthusiastically adopted in the pilot regions and will be replicated in additional regions. In the maternal health and family planning area, there is a vital need to continue to integrate HIV/AIDS services into maternity, family planning, and women's centers so that they can effectively deal with the problem of mother-to-child transmission of HIV/AIDS. Programs to prevent unwanted pregnancies among HIV-positive woman will reduce child abandonment (95 percent of HIV positive mothers who abandon their children at birth had unplanned pregnancies).

Address Other Health Vulnerabilities

There are more than one million children in Russia that are abandoned, institutionalized or on the streets. USAID will improve the quality and quantity of direct medical-social services to

reduce the number of children in institutional care, including children abandoned because of HIV/AIDS issues. Policy work and advocacy will reduce stigmatization and help in social integration.

Strategic Objective No. 4: Program Support

Flexibility will, at times, be required to respond quickly to changing needs, to finance activities that cut across multiple objectives and enhance the linkage among sectors, and to support analysis and strategic planning. This objective will include cross-cutting activities or those stemming from, for example, Congressional earmarks and directives and special Administrative initiatives that do not fit into the other program objectives described above as well as exchanges evaluations, assessments, and surveys. This program support objective includes the initial stages of funding for the regional program in the North Caucasus as well as Eurasia Foundation support. However, once activities are adequately incubated, funds will be “re-assigned” from this SO to the appropriate SO so that a clear, delineated amount of funding can be properly “tracked” and attributed to specific development challenges.

Gender

On an on-going basis, USAID/Russia strives to integrate gender considerations into all of its activities; ensuring that both men and women benefit from USAID support and that institution-building is based on gender-aware policies. Using gender as an additional lens through which to view and resolve technical issues results in better targeted and more effective activities. In some program areas, gender considerations affect the approach taken within a given activity and in other program areas; specific activities are designed to address problems already identified. To ensure that gender issues are addressed, all programs designed, implemented and assessed under the new strategy will continue efforts to take into account differences and inequalities between men and women in all sectors. All results framework indicators will be disaggregated by gender to the greatest extent feasible. Data collection (including sex-disaggregated data), survey techniques, and analysis will be used to ensure that both men and women are participating in activities, and that their interests and concerns, including gender issues, are reflected when developing and implementing policy.

USAID/Russia has long recognized the challenges to the equal advancement of both women and men. Women in Russia continue to face discrimination in the economic and political spheres, and to be more likely to suffer from gender-based violence, both inside and outside the home. The severity of men's lower life expectancy and unhealthy lifestyles, as well as maternal and infant mortality concerns, are responsible for the projected "demographic implosion" in Russia. Despite the strong presence of women in the Russian workforce, disparities exist in wages for equal work, unemployment rates, top management positions, business ownership, and political leadership. Women did not fare as well as men economically during privatization and continue to be at risk during on-going transitions such as the reduction of the public sector workforce. In the political sector, women are increasing their numbers in local government, but the numbers of women involved in political parties and elected to higher level public office are still relatively small. In the health sector, several pressing issues are disproportionately affecting men: HIV/AIDS, TB, and unhealthy lifestyles that contribute to high morbidity and mortality rates. Domestic violence and trafficking in persons both continue to be serious human rights concerns affecting women in Russia. Although reliable statistics do not exist on trafficking, it is thought that female vulnerability to trafficking derives predominantly from the lack of economic alternatives and the lure of employment abroad.

Resource Needs

Program Funding: USAID's expected program achievements cannot be attained within the constraints of projected declining FSA resource levels for the planning period. Even though it is expected that the Eurasia Foundation earmark may come to an end during the planning period, thus decreasing a major constraint on discretionary spending, we project that there will still be relatively large earmarks for the RFE, HIV/AIDS, media, and family planning. USAID will continue to petition for Economic Support Funds (ESF) and greater levels of Development Assistance (DA) and Child Survival and Health (CSH) funding for work in health; a possible President's Emergency Plan for AIDS Relief (PEPFAR) designation for Russia and additional funding for HIV/AIDS; central anti-trafficking funds; regional bureau or central programs; PL-480 Title II to the World Food Program and additional assistance from the Conflict Mitigation Center and OTI for NGOs or international organizations working on conflict mitigation efforts, (e.g., Chechnya); participation of OFDA in work on emergency and disaster response, and funding from private sector partners participating in GDAs. In addition, we will explore joint ventures with other government agencies: DOD on HIV programming; DOE, DOD, State, HHS/CDC, on non-proliferation, threat reduction and scientific research projects; State (ECA, INL, EST) and Library of Congress on exchanges, public diplomacy and counter-terrorism (e.g., money laundering) and other work to support USG-wide efforts at reducing the WMD threat; and utilize loan portfolio guarantees in various sectors through the Development Credit Authority mechanism to leverage commercial bank resources. We will work to leverage funds through public-private partnerships (GDAs). We envision that an annual combined OYB level of approximately \$60 million from the above resources would enable us to accomplish the objectives of this strategy. USAID also will look to the day when Russia is eligible to compete for funds from the Millennium Challenge Account.